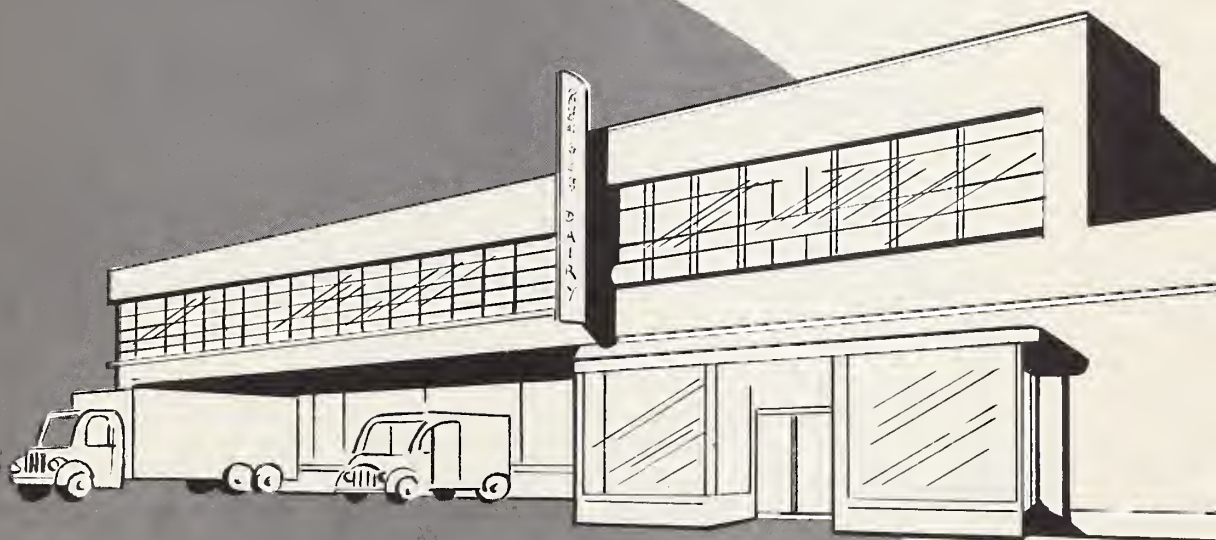
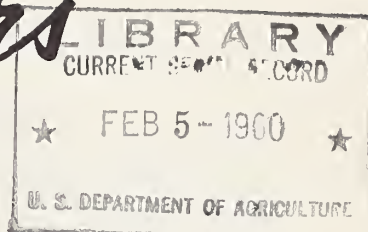


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Milk Distributors



Sales and Costs

July - Sept., 1959

U. S. DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Marketing Economics Research Division

MILK DISTRIBUTORS' SALES AND COSTS

July-September 1959

By D. D. MacPherson and Helen V. Smith
Marketing Economics Research Division
Agricultural Marketing Service

: This report is the current issue of a series based upon :
: information obtained from distributors of fluid milk and :
: cream products. These distributors are subscribers to a :
: cost comparison service which furnished the Department :
: with tabular data for analysis. A uniform accounting :
: system is used, and information is given on standardized :
: forms. Data reported include: Costs and quantities of :
: raw milk and other raw materials; prices and quantities :
: of products sold; and operating costs. :
: :
: The firms selected are privately owned, and chiefly single- :
: plant firms. In these characteristics they are considered :
: to be typical. Very small firms, very large firms, national :
: chains, and producer-distributors are not included. :

SALES AND COSTS

Milk distributors' net receipts per unit of product sold in the July-September quarter of 1959 were about 3 percent higher than a year earlier. Net profit per unit of sales, before payment of income taxes, was also above a year earlier, although costs were higher.

Value of Sales

Milk distributors' net receipts from sales in the July-September quarter of 1959 were \$11.26 per 100 pounds of milk and cream processed, up seasonally from the previous quarter and 31 cents higher than a year earlier.

Net receipts per unit of product sold in the first three quarters of 1959 averaged somewhat above 1957 and 1958 although a little lower than in the same period of 1956. During the 1956-59 period there have been shifts from single quarts to multiple-quart containers, from home delivery to wholesale outlets, and from premium priced to regular milk. These changes in marketing have tended to reduce the average net sales value per unit of product. Upward adjustments in selling prices for individual items have not been sufficient to offset the effects of the marketing changes, but they are catching up.

Cost of Materials for Processing and Resale

In the July-September quarter of 1959, milk distributors' costs for materials for processing and resale were \$6.01 per 100 pounds of milk and

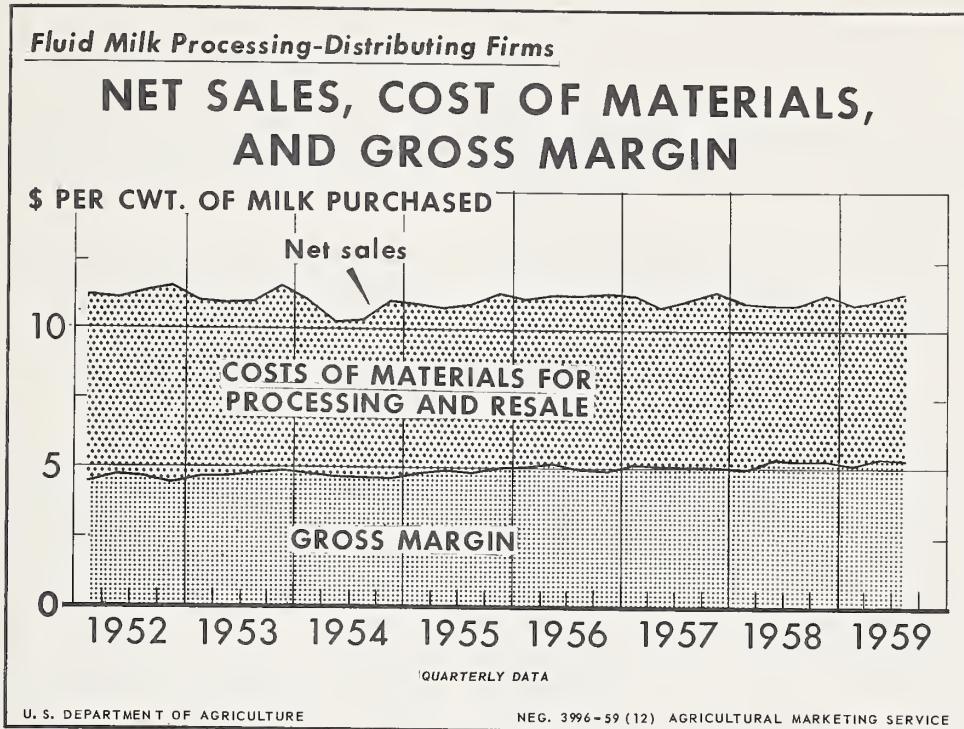


Figure 1

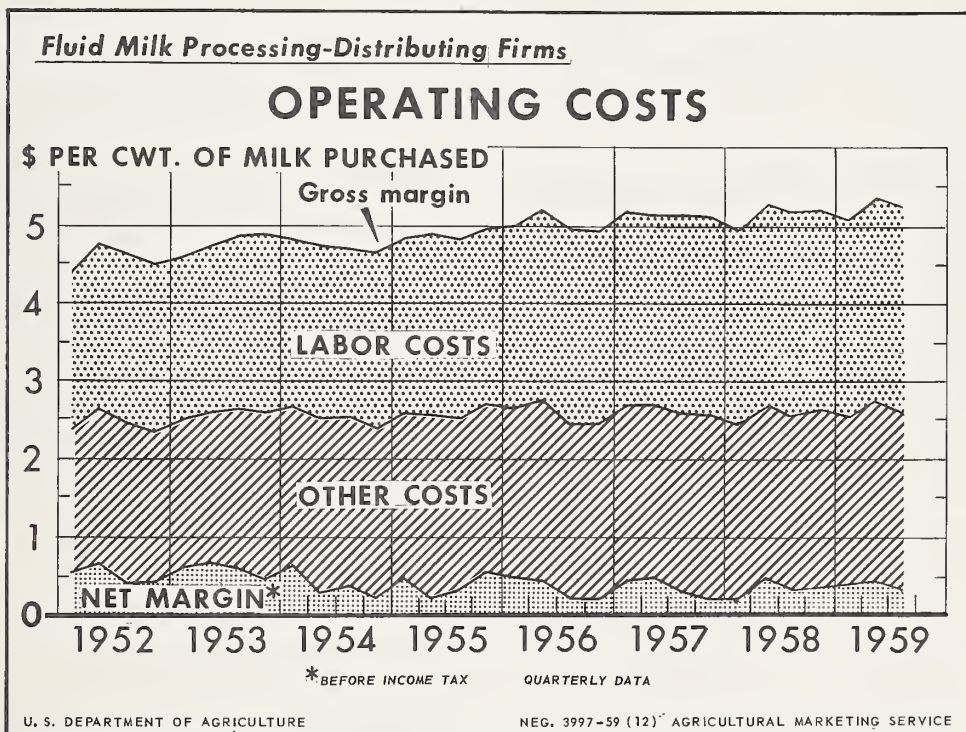


Figure 2

Table 1.--COSTS AND MARGINS FOR SELECTED DAIRY FIRMS: Per 100 pounds of milk and cream processed, for years 1952-58, and for the 5 most recent quarters

Account	Yearly average										1959				
	1952	1953	1954	1955	1956	1957	1958	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June
Net sales receipts.....	Dol. 11.32	Dol. 11.12	Dol. 10.69	Dol. 10.95	Dol. 11.22	Dol. 11.15	Dol. 11.05	Dol. 10.95	Dol. 11.28	Dol. 10.93	Dol. 11.10	Dol. 11.26			
Cost of materials for processing and resale:															
Raw milk and cream.....	5.85	5.43	5.07	5.12	5.30	5.14	5.04	4.90	5.24	5.07	4.73	4.91			
Other.....	.86	.90	.87	.93	.88	.87	.84	.87	.82	.78	.98	1.10			
Total.....	6.71	6.33	5.94	6.05	6.18	6.01	5.88	5.77	6.06	5.85	5.71	6.01			
Gross margin.....	4.61	4.79	4.75	4.90	5.04	5.14	5.17	5.18	5.22	5.08	5.39	5.25			
Operating cost:															
Salaries, wages, and commissions <u>1</u> /.....	2.15	2.19	2.21	2.28	2.43	2.50	2.56	2.59	2.57	2.54	2.64	2.65			
Containers.....	.60	.62	.65	.70	.72	.71	.70	.71	.71	.67	.73	.68			
Operating supplies.....	.30	.32	.35	.32	.28	.29	.29	.29	.30	.29	.29	.30			
Repairs, rent and depreciation.....	.50	.52	.57	.60	.64	.67	.68	.69	.67	.64	.67	.64			
Taxes.....	.06	.06	.06	.06	.05	.06	.06	.06	.06	.06	.06	.06			
Insurance.....	.02	.02	.03	.04	.04	.04	.04	.04	.04	.04	.04	.04			
Services.....	.16	.19	.19	.18	.17	.17	.17	.19	.17	.15	.18	.20			
Advertising.....	.15	.15	.16	.18	.19	.18	.18	.18	.19	.17	.20	.18			
General.....	.15	.13	.13	.14	.16	.15	.16	.15	.18	.15	.14	.15			
Total.....	4.09	4.20	4.35	4.50	4.68	4.77	4.84	4.89	4.89	4.71	4.95	4.91			
Net margin <u>2</u>/ .....	.52	.59	.40	.40	.36	.37	.33	.29	.33	.37	.44	.34			
Firms reporting.....	43	51	75	83	80	80	80	80	80	80	80	80			

1/ Includes State unemployment, Federal old age, compensation, and employee benefits.

2/ Net returns to owners before income taxes.

cream processed--up 30 cents from the previous quarter and 24 cents from a year earlier. The quarter-to-quarter increase was about the same as in previous years: costs for raw milk and cream were up 18 cents and costs of other raw materials for processing and products purchased for resale were up 12 cents. As a percent of net sales receipts, costs of materials for processing and resale in the July-September quarter and the first three quarters in 1959 were at about the same levels as in 1957 and 1958.

Gross margin--net sales receipts less cost of materials for processing and resale--was 46.6 percent of sales in July-September 1959 as compared with 47.3 percent in 1958 and 46.1 percent in 1957.

Operating Costs

Total operating costs for fluid milk distributors were \$4.91 per 100 pounds of product processed in the July-September 1959 quarter--down 4 cents from the previous quarter but up 2 cents from a year earlier. The quarter-to-quarter change is about the same as in previous years.

The net year-to-year change results from varying changes in individual operating costs items. Cost of wages, salaries, and commissions was \$2.65--up 6 cents from a year earlier, thus continuing the trend which has been unbroken since this series began in 1952. Container costs of 68 cents were 3 cents lower than a year earlier, probably as a result of the shift to larger-sized containers which cost less for a given amount of product. Container costs have decreased each year since 1956 in spite of the fact that prices of individual sizes and types of containers have increased. Costs of repairs, rent, and depreciation at 64 cents declined 5 cents. Changes in other operating costs were minor.

Most of the increases in operating costs have occurred in the delivery function. Detailed study of certain functions 1/ showed that in a 4-year period processing costs increased 0.9 percent and delivery costs increased 12.1 percent. Improved technology has offset increasing personnel rates and facilities costs in processing but not in delivery.

Net margin for fluid milk distributors--the remainder for payment of income taxes and return on investment--was 34 cents per 100 pounds of milk and cream processed in the July-September quarter of 1959, down seasonally from the previous quarter but up 5 cents from a year earlier.

SELLING PRICES

Average selling prices for milk packaged in types and sizes of containers used in households have declined over the 4-year period of April-June 1956 to April-June 1959 (table 2). 2/ Listed selling prices for a

1/ See MDSC-8, MDSC-9, MDSC-10, and MDSC-11.

2/ Household-used types and sizes of containers for milk are: glass gallon, glass and paper 1/2 gallons, glass and paper quarts. Other sizes such as 3-gallon and 5-gallon dispenser cans, pints, 1/3 quarts, and 1/2 pints are used almost entirely for institutional sales outlets.

Table 2.--LISTED SELLING PRICES PER QUART: Milk sold in types and sizes of containers used in households, April-June quarter, 1956-59 ^{1/}

April-June quarter	Homogenized milk			Premium milk	Creamline milk	Weighted average
	Gallons	Half-gallons	Quarts	Quarts	Quarts	
	Cents	Cents	Cents	Cents	Cents	
<u>Retail</u> ^{2/}						
Average:						
1956.....	20.9	23.4	24.3	26.1	24.2	24.4
1957.....	21.3	23.0	24.1	27.0	24.1	23.9
1958.....	20.8	22.9	24.4	27.5	24.3	24.1
1959.....	21.1	23.3	25.3	27.0	25.0	24.0
Range:						
1956.....	18.0-24.5	20.0-27.5	17.5-28.0	19.5-29.0	17.5-29.0	
1957.....	18.5-24.5	19.5-27.5	20.0-29.0	21.0-30.0	20.0-31.0	
1958.....	18.0-24.5	18.5-27.5	19.0-29.0	22.0-30.0	19.0-27.0	
1959.....	17.0-25.0	18.5-28.0	21.0-28.5	23.0-30.5	20.0-27.0	
<u>Wholesale</u>						
Average:						
1956.....	17.7	20.3	21.8	23.9	22.9	21.1
1957.....	18.3	21.0	22.1	23.7	22.5	21.0
1958.....	18.4	20.7	22.6	24.7	22.6	21.3
1959.....	18.7	20.7	22.5	25.6	22.7	20.9
Range:						
1956.....	15.5-22.0	18.0-25.5	17.0-26.0	19.0-17.0	17.0-25.0	
1957.....	15.5-23.0	16.5-25.5	17.0-26.0	20.0-28.0	17.5-27.0	
1958.....	15.5-21.5	16.0-26.0	17.0-26.5	19.5-28.0	17.0-25.5	
1959.....	15.5-21.5	16.0-25.5	17.5-27.5	20.5-27.0	17.0-26.5	

^{1/} Milk only; does not include skim milk, chocolate milk, buttermilk, cream and milk mixture, or cream. Container sizes not included (bulk dispenser cans, pints, 1/3 quarts, and 1/2 pints) are used for institutional sales outlets.

^{2/} Home delivery and dairy-owned stores.

selected group of fluid milk distributors indicate that this decline has occurred in spite of the fact that prices for milk in individual types and sizes of containers have increased. The paradox of average prices declining while individual prices increase can be accounted for by two changes: First, and most important, a shift to larger containers at lower per quart prices; second, a shift away from higher priced varieties of milk (table 3).

For retail sales--home delivery and dairy-owned stores--the weighted average of listed selling prices, per-quart equivalent, was 24.0 cents in April-June 1959, 0.4 cent less than the same period of 1956 and about the same as 1957 and 1958. During this 4-year period the price of single quarts of homogenized milk increased 1.0 cent to 25.3 cents but sales in single-quart containers decreased from over 58 percent to about 33 percent of the total retail sales. During this period the price per quart of homogenized milk in half-gallon containers decreased 0.1 cent to 23.3 cents, but sales in half-gallon containers increased from 12 percent to 51 percent of the total retail sales. Sales in gallon jugs, at lowest prices per quart, increased from 2.3 percent to 5.6 percent of the total. Also, the price of premium milk--high butterfat milk and "breed" milk ^{3/}--increased from 26.1 cents to 27.0 cents per quart, but sales decreased from over 14 percent to

^{3/} "Breed" milk is a term used for milk produced by certain breeds of cattle, most commonly Jersey or Guernsey.

Table 3.--Percentage of milk distributors' sales by specified types of milk and sizes of containers used in households, retail and wholesale, April-June quarter, 1956-59 ^{1/}

Kind of milk and size of container	Retail ^{2/}				Wholesale			
	1956	1957	1958	1959	1956	1957	1958	1959
	Percent	Percent	Percent	Percent	Percent	Percent	Percent	Percent
Homogenized milk, all containers.....	72.7	78.9	84.1	89.5	88.2	95.4	96.3	98.4
Gallons, glass.....	2.3	2.4	4.5	5.6	3.0	3.6	5.2	7.6
Half-gallons.....	12.1	23.0	35.7	51.0	30.2	47.7	56.6	75.2
Glass.....	10.0	18.5	20.4	24.6	2.0	1.7	1.4	1.4
Paper.....	2.1	4.5	15.3	26.4	28.2	46.0	55.2	73.8
Quarts.....	58.3	53.5	43.9	32.9	55.0	44.1	34.5	15.6
Glass.....	47.6	45.4	37.3	28.7	10.3	6.5	3.5	1.5
Paper.....	10.7	8.1	6.6	4.2	44.7	37.6	31.0	14.1
Premium milk, quarts....	14.4	8.2	4.8	4.1	4.7	1.0	0.8	0.7
Glass.....	13.6	7.3	4.1	3.6	2.5	0.2	0.2	0.1
Paper.....	0.8	0.9	0.7	0.5	2.2	0.8	0.6	0.6
Creamline milk, quarts...	12.9	12.9	11.1	6.4	7.1	3.6	2.9	0.9
Glass.....	11.5	11.8	10.2	6.2	3.2	1.5	.9	0.4
Paper.....	1.4	1.1	0.9	0.2	3.9	2.1	2.0	0.5
All milk.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total glass.....	85.0	85.4	76.5	68.7	21.0	13.5	11.2	11.0
Total paper.....	15.0	14.6	23.5	31.3	79.0	86.5	88.8	89.0
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^{1/} Milk only; does not include skim milk, chocolate milk, buttermilk, cream and milk mixtures, or cream. Container sizes not included (bulk, dispenser cans, pints, 1/3 quarts and 1/2 pints) are used for institutional sales outlets.

^{2/} Home delivery and dairy-owned stores.

about 4 percent of the total. The effects of these shifts toward containers of larger size but lower price per quart, and away from premium priced kinds of milk can be pointed out in another way: In 1956 the weighted average price of all milk was 0.1 cent higher than the price of homogenized milk in single quarts; in 1959 it was 1.3 cents lower.

During this period the same factors have affected wholesale prices. The weighted average of the listed prices, per quart equivalent, has decreased from 21.1 cents to 20.9 cents while the price for all but one size of container and type of milk has increased. The wholesale price of single quarts of homogenized milk has increased 0.7 cent to 22.5 cents but sales in this container decreased from 55 percent to less than 16 percent of total wholesale sales of milk. The price per quart of milk in half-gallons increased 0.4 cent to 20.7 cents, and sales increased from 30 percent to 75 percent of the total; sales in gallon jugs--the lowest per-quart priced milk--have increased from 3 percent to nearly 8 percent of the total. Wholesale sales of premium milk and creamline milk--the highest priced milk--have dropped from about 12 percent to less than 2 percent of the total. In 1956 the weighted average wholesale price was 0.7 cent lower than the single quart price and in 1959 it was 1.6 cents lower.

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The general trend in both retail and wholesale selling prices is partially substantiated by the net sales receipts from milk processed by fluid milk distributors. In the April-June quarters, net sales receipts per 100 pounds were \$11.25 in 1956, \$10.85 in 1957, \$10.96 in 1958, and \$11.10 in 1959. The shift from home delivery to wholesale also influenced this trend.

Actual selling prices are probably a little lower than the weighted average of the listed prices for three reasons: First, data from another source show retail discount plans in use in about 30 percent of the fluid milk markets. ^{4/} Second, wholesale discounts, ranging up to 15 percent, are in effect in many markets. Third, a factor which may be irregularly important in individual markets, selling prices may be below list prices for sales promotions, week-end specials, and price wars.

^{4/} U. S. Agricultural Marketing Service. Fluid Milk and Cream Report. Issued monthly.